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Diet Passes FY 1991 Budget Quickly, Quietly

The initial general account budget for FY 1991 sailed through the lower house of the Diet March 14, in complete contrast to the stormy voyages encountered by the budgets for the previous two fiscal years. Despite this quick action, the upper house is not expected to vote on the spending package before the April 1 start of the fiscal year. This delay will force the government to prepare a stopgap spending measure for the fifth year in a row.

The budget's speedy and smooth journey through the House of Representatives was partly an illusion. The ruling Liberal Democratic Party used its lower house majority to approve the budget, sweeping aside unanimous dissent from the opposition parties. A vote by the House of Councillors, however, might not come before April 13, because its legislative hopper is overflowing. The need for an upper house tally after April 13 is moot under Japan's constitution, which mandates implementation of spending measures 30 days after lower house approval irrespective of upper house action. For the interim the Ministry of Finance has prepared a Y5.5 trillion ($40.7 billion at Y135=$1.00) provisional budget, enough to fund government obligations for the first 12 days of April.

Unlike previous years controversial issues were handled before the lower house began its budget debate. Conflict over the 3 percent consumption tax implemented in April 1989 -- the main legislative hurdle to budget passage in the past two years -- was neutralized by talks that began last autumn between the LDP and the opposition parties. While no definitive compromise was hammered out, the two sides agreed not to raise the subject when the FY 1991 budget was considered. Opposition parties found that this issue no longer was of much importance to voters, and the LDP, which at one time had suffered at the polls from its association with the tax, certainly had no interest in rekindling such voter attention.

The dust also had settled over the Kaifu cabinet's controversial land tax reform package (see JEI Report No. 5B, February 8, 1991), removing another

Summary of General Account Outlays, FY 1990-FY 1991

(in billions of yen)

	Initial FY 1990	Initial FY 1991	Change
Discretionary Items			
Social Security	Y11,614.8	Y12,212.2	5.1%
Education and Science	5,112.9	5,394.4	5.5
Pensions	1,837.5	1,808.4	-1.6
Defense	4,159.3	4,287.0	3.1
Economic Cooperation	784.5	845.9	7.8
Public Works	6,148.0	6,521.5	6.1
Disaster Reconstruction	66.7	68.2	2.2
Small Business Measures	194.3	195.0	0.3
Food Control Programs	395.2	373.2	-5.6
Energy Measures	547.6	592.1	8.1
Other	4,162.2	4,355.3	4.6
Infrastructure Investment	0.0	135.0	100.0
Reserves	350.0	150.0	-57.1
Persian Gulf Contribution*	--	300.0	--
Subtotal	35,373.1	37,238.2	5.3
Nondiscretionary Items			
Transfers to Local Governments	15,275.1	15,974.9	4.6
Debt Service	14,288.6	15,834.3	10.8
Transfer of NTT Proceeds to Public Works	1,300.0	1,300.0	0.0
Subtotal	30,863.7	33,109.2	7.3
Total	66,236.8	70,347.4	6.2

*This amount actually was disbursed in FY 1990. As part of a compromise plan to ensure legislative approval of Japan's roughly $9 billion contribution, however, the government agreed to trim FY 1991 defense spending by Y100 billion and to use Y200 billion originally earmarked for reserves to help finance this assistance.

volatile subject from the lower house's debate agenda before the budget vote. The LDP offered enough reforms to placate opposition parties, which had championed the cause of those who wanted but could not afford to buy homes, but these changes were not broad enough to pose a serious deflationary threat to the overheated real estate market.

To a large extent the protracted and passionate fight over the Kaifu government's response to the Persian Gulf crisis substituted for the normally acrimonious budget debate. Since Y300 billion ($2.2 billion) of the FY 1991 spending package will help finance Japan's contribution to the multinational forces, one might have expected the opposition parties to fight strenuously against approval of the package. On the contrary, the compromise between the LDP and the opposition parties that ensured Diet approval of Japan's nearly $9 billion contribution for the multinational forces deployed to the Middle East protected the FY 1991 budget from controversy precisely because it was linked to the gulf package (see JEI Report No. 7B, February 22, 1991). All opposition parties (including the Democratic Socialist Party and Komeito, which had backed passage of the LDP plan for the extra assistance) were able to vote against the budget because they knew their nays would not prevent the spending plan from being implemented.

Details of the initial general account budget are mainly unchanged from the version approved by the cabinet in late December 1990. Total general account spending remains pegged at Y70.3 trillion-plus ($521.1 billion); funds allocated to most major spending categories also are unchanged (see Table). In line with the gulf funding compromise, defense spending was pared by Y100 billion ($740.7 million), while Y200 billion ($1.5 billion) was diverted from reserves, both part of a plan to free up funds for the roughly $9 billion contribution. Although it has not yet been submitted, the FY 1991 tax plan also has elements linked to the gulf funding compromise. The revenue measure will include the already approved one-year increase in the petroleum tax and a surcharge on corporate income taxes.

While the LDP may have gained easy passage for the FY 1991 budget, continuing domestic debate on Japan's role in the reconstruction of Persian Gulf nations and its role in the "new world order" proposed by President Bush surely will include supplemental budget requests by the government. The quick vote on the spending program for the upcoming fiscal year may be the exception rather than the rule in the next 12 months as potentially controversial measures wait in the wings.

Jon Choy

Japanese Savings Growth Slows To A Crawl In 1990

The tortoise won, as any preschooler could have told a skeptical financial analyst. The fabled result is similar to the conclusion that can be drawn from a survey of Japanese household financial assets in 1990. As the Japanese stock market slumped last year, people who had invested their savings in instruments with slow-but-steady performance characteristics came out ahead. While stock prices last year were 12 percent below their 1989 average, interest rates on savings accounts rose as much as 2 percentage points to generate yields above 7 percent on some types of instruments.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

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